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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of
Federal State Joint Board on
Universal Service

CC Docket No. 96-45

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INITIAL COMMENTS OF THE
NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

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TABLE OF CONTENTS

I. INTEREST OF NARUC	1
II. DISCUSSION	2
A. If the new pro-competitive regulatory paradigm envisioned by Congress is to be achieved, NARUC believes that continued Federal-State cooperative efforts are an absolute prerequisite to maintaining and advancing Universal Service	2
1. To successfully address the concept of Universal Service, Federal and State policy makers must take a coordinated and comprehensive approach	3
2. As States have a critical role to play in preserving and advancing US during the transition to competition, the FCC should be careful not to undermine States' ability to flexibly respond to unique local conditions	5
3. One area for FCC-State cooperation is in the administration of the Federal US mechanism. <u>At a minimum</u> , States should play an advisory role in how such funds are administered	9
4 - Another area where continued cooperation is required, is § 254(c)(2)'s expectation that this Joint Board will "from time to time," sua sponte, "recommend... modifications in the definition of the services supported by the [US] support mechanisms."	9
B. The Statute Contemplates a Transition Period	11
C. Rather than increasing the Subscriber Line Charge, the Joint Board should examine alternative methods of recovery of the NTS costs remaining in CCL	12
1. Increasing the SLC is Contrary to Congressional Intent	15
2. The FCC Should Consider Alternative Regulatory Approaches to Replace the SLC	17
D. Mechanisms to support federal policies should be funded by interstate providers	18
III. CONCLUSION	19

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**INITIAL COMMENTS OF THE
NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS**

Pursuant to the Federal Communications Commission's ("FCC" or "Commission") Rules of Practice and Procedure, 47 C.F.R. §§ 1.49, 1.41, and 1.415 (1995), the National Association of Regulatory Utility Commissioners¹ ("NARUC") respectfully submits the following initial comments in response to the FCC's March 8, 1996 "Notice of Proposed Rulemaking" ("**NPRM**") issued in the above-caption proceeding.

I. INTEREST OF NARUC

NARUC is a quasi-governmental nonprofit organization founded in 1889. NARUC's mission is to improve the quality and effectiveness of public utility regulation in America. Its members include commissions from all fifty States, the District of Columbia, Puerto Rico, and the Virgin Islands, charged with regulating communications common carriers operating within their respective borders.

¹ The four State Commissioners serving on the § 254 Joint Board convened in this proceeding did not participate in the drafting, discussion, or final review of these pleadings.

Each commission has the duty to assure that communications services and facilities required by the public convenience and necessity are established and that service is furnished at reasonable rates.

The **NPRM** is designed to implement §254 of the Communications Act of 1934, as amended by the Telecommunications Act of 1996 ("the 1996 Act")² as follows: (1) define the services that will be supported by Federal universal service ("US") support mechanisms; (2) define those support mechanisms; and (3) otherwise recommend changes to the FCC's regulations to implement the US directives of the 1996 Act. As Congress recognized in this section by requiring a Joint Board, virtually every single issue raised in this proceeding could have a significant impact on intrastate operations and local rates of carriers subject to NARUC's State commission membership.

II. DISCUSSION

Because of the State's strong interest in Universal Service issues, and the related notion of comprehensive review, NARUC has taken positions on a number of issues raised in this NPRM.

- A. If the new pro-competitive regulatory paradigm envisioned by Congress is to be achieved, NARUC believes that continued Federal-State cooperative efforts are an absolute prerequisite to maintaining and advancing Universal Service.**

² Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (to be codified at 47 U.S.C. §§ 151 et seq.)

1. To successfully address the concept of Universal Service, Federal and State policy makers must take a coordinated and comprehensive approach.

Protecting this Nation's long-standing commitment to universal access to affordable basic service during the transition to competition is one of the most critical challenges facing federal and state regulators. To meet that challenge, the States and the FCC must continue to take a coordinated approach to US issues.³

³ NARUC has consistently advocated coordinated Federal and State action in this area. We also have invariably urged the FCC to adopt a comprehensive approach to examining US and related access reform issues. For example, NARUC resolutions specifically (a) suggest States and the FCC should work cooperatively to develop Universal Service criteria and standards [February 28, 1996 *Resolution Regarding the NARUC Policy Principles for the Implementation of the "Telecommunications Act of 1996"*]; (b) ask how "policy makers can best coordinate efforts in developing and implementing US policies, to ensure nationwide implementation while minimizing overlap...of subsidies" and "endorses[e] the use of a collaborative process with the FCC...to address and refine the concept of and issues relating to [US];" [November 11, 1993 *Resolution on Recent Initiatives to Consider Universal Service Policies*]; (c) consistently support "a comprehensive review of the concept of universal service and issues related to the continuation and expansion of universal service;" *Id.*; (d) "recommend..the..Joint Board, FCC and Congress...examin[e] all sorts of methods of supporting [US] including but not limited to appropriate taxation of new entrants in the telecommunications and information marketplace, completely revamping the separations/cost allocations processes in order to make implicit subsidies explicit, or any other system that would be more harmonious with a competitive market structure;" [July 27, 1994 *Resolution to Consider Taxation as a Means of Supporting Universal Service*]; (e) urge the FCC to establish an NOI to seek comment concerning the issues raised by the March 1993 Access Issues Work Group Report; [March 4, 1993 *Resolution Requesting the [FCC] to Initiate an Inquiry into Access Issues*]; and (f) recommend six basic principles for STATES to consider when they engage in policy making with respect to universal service issues. [July 27, 1994 *Resolution On Universal Service Principles*].

Long before passage of the 1996 Act, State and Federal officials were working to improve communications about issues of common concern. With passage of the Act, the need for more open lines of communications intensified. If the new regulatory paradigm envisioned by Congress is to be achieved, continued cooperative efforts are an absolute prerequisite. Indeed, the 1996 Act recognizes the legitimate US roles of both the FCC and the States and clearly contemplates coordinated State and Federal action on US issues. Laudably, Chairman Hundt, shortly after the Act's passage, recognized the imperative to rapidly accelerate this nascent Federal-State cooperative relationship. At NARUC's winter meetings, he solicited direct State input into FCC implementation efforts and also suggested a more collaborative approach to addressing sections of the legislation directly impacting both State and Federal interests. Other presentations by FCC Commissioner Susan Ness and a number of FCC Bureau Chiefs advanced similar themes.

NARUC applauds the FCC's efforts to move toward a more cooperative paradigm. We urge the Commission to continue to nurture this expanding Federal-State relationship. Close FCC-State consultation and collaboration is imperative if we are to manage a smooth transition to the competitive regulatory regime Congress envisioned and still avoid rate shock and protect universal service. Moreover, such an approach has the added benefit of mitigating the unnecessary expenditures of State and Federal resources associated with industry forum shopping.

2. **As States have a critical role to play in preserving and advancing US during the transition to competition, the FCC should be careful not to undermine States' ability to flexibly respond to unique local conditions.**

Historically, US has been maintained through pricing policies and support mechanisms that keep rates for residential and small businesses low, notwithstanding the companies' actual costs of providing the service. This system has been possible because of policies set through coordinated and cooperative efforts at the Federal and State levels. Each contributes an important piece to the equation.

Currently, at the Federal level, there is a US fund into which interstate long distance carriers contribute and from which qualifying local exchange carriers ("LECs") who serve high cost areas receive funds. On the intrastate level, each State differs as to the exact mix of policies necessary to keep rates low and assure ubiquitous service availability. Many factors enter into the decisionmaking process, e.g., population growth, cost factors relating to the State geographic and demographic characteristics, the number of companies, and the carrier's financial conditions.

In light of the tension between the required overhaul of existing federal US mechanisms and advancing competitive pressures, NARUC continues to advocate a significant State role. The framework for transitioning to industry-wide competition must be properly laid or the country risks having unregulated monopolies, increasing telephone rates, decreasing subscription levels, diminishing quality of service, and infrastructure disinvestment for some areas.

The best way to address this development of local competition while ensuring the preservation and advancement of nationwide US in a fair and efficient manner is through a regulatory framework that balances Federal and State responsibilities in a flexible way.

State regulators have an in-depth knowledge of their local markets and experience with local exchange companies. This expertise is essential to the development of creative local competition policies which will fit the unique characteristics of individual States. Several States have aggressively moved to allow local service competition. In addition, over half of the States allow price-based regulation as an alternative to rate of return regulation.

However, the decision to employ these alternative approaches was made only after carefully weighing the benefits and risks to ratepayers.

At the same time, through their vigilance and expertise, these commissions have promoted US by contributing to steady improvements in basic telephone service at declining rates.⁴

⁴ Since 1987, States have required rate reductions totalling over \$4.11 billion. In 1993 alone rate reductions totalled \$450 million. *Trends in Telephone Service*, FCC Industry Analysis Division, May 1994, p. 15. In addition, several States, including Missouri, New York, New Jersey, Pennsylvania, Texas, Oregon, and Wisconsin have ordered long-term freezes of local rates.

As § 254(f) makes clear, Congress expects the States to be permitted to continue developing and redefining US policies that best meet the needs of subscribers within their jurisdictions, as long as such policies do not make it impossible to achieve Federal statutory mandates.⁵ States simply must have the ability to ensure that high quality service is provided in markets that are less competitive or attractive for investment.⁶

One section of the **NPRM** raises this expectation in the context of specific issues. In ¶¶ 54 and 56 of the **NPRM**, mimeo at 27-28, the Joint Board is charged with examining the impact on low income subscribers of (i) implementing toll blocking and control services, and (ii) reducing deposit requirements.

Last year, on July 20, 1995, the FCC released a proposed rulemaking in CC Docket 95-115 which raised similar issues. In response to that docket, NARUC passed two resolutions on July 26, 1995, *Resolution on FCC Rulemaking On Telephone Subscribership*, and on November 14, 1995, *Resolution Supporting Federal-State Collaboration On Telephone Subscribership Issues*. The July resolution supported the FCC's examination of policies to promote telephone subscribership, but with the caveat that those federal policies must not limit the flexibility of the states to implement their own universal service policies.

⁵ See, H.R. Conf. Rpt. No. 458, 104th Cong., 2d Sess. 128-32 (1996).

⁶ See, February 28, 1996 *Resolution Regarding the NARUC Policy Principles for the Implementation of the 'Telecommunications Act of 1996.'*"

As did the resolutions discussed, supra, that resolution also favored a collaborative Federal-State approach to address US issues. In October, 1995, various State staff and commissioners convened a conference call with the FCC and discussed (i) how adopting principles might serve to increase subscribership, (2) a request from the FCC for additional information on state subscribership policies, and (3) the need for more accurate and detailed subscribership data from the U.S. Census Bureau.

After that call, NARUC developed the following set of proposals to serve as the basis for further discussion with the FCC on subscribership issues:

- Policies should be consistent with maintaining and/or increasing telephone subscribership.
- Policies should be competitively neutral.
- Local service providers should provide, at little or no charge, options to help customers control their telephone usage and should inform customers of these options.
- Additional information should be available to customers about their service options and prices (e.g., toll rates, collect calls, and pay-per-call services).
- Where involuntary blocking is allowed for nonpayment of billed amounts, it should be limited either to the unpaid service(s) or, where technically feasible, to the provider(s) of the unpaid service(s); and
- The FCC should defer to state authority on issues regarding blocking and billing, such as voluntary intrastate toll blocking and multiple balance billing.

The November resolution anticipates additional consultations with the FCC on these issues. However, at a minimum, the Joint Board should consider these principles as it addresses this section of the **NPRM**.

3. One area for FCC-State cooperation is in the administration of the Federal US mechanism. At a minimum, States should play an advisory role in how the Federal US funds are administered.

In ¶¶ 127 - 130 of the *NPRM*, mimeo at 58, the FCC seeks comment on the best approach to administer the US mechanisms fairly, consistently, and efficiently. Specifically, the *NPRM* suggests two approaches: (i) administration through a non-governmental fund administrator, or (ii) the State commissions "...would be responsible for administering the funds' collection and distribution, operating under plans approved by the [FCC]." This proposal emphasizes, by its own terms, the need for a coordinated approach in Federal US fund administration. Given the obvious intrastate impacts, at a minimum, as with NECA's current administration of the High Cost Fund, there should be some State Commission oversight and input into the process.

Indeed, historically, when similar circumstances generating issues of joint concern have arisen, both the FCC and NARUC have agreed that, **at the very least**, States should have an oversight role.⁷

- 4 - Another area where continued cooperation is required, is § 254(c)(2)'s expectation that this Joint Board will "from time to time," *sua sponte*, "recommend... modifications in the definition of the services supported by the [US] support mechanisms."

⁷ See, e.g., the FCC's approval of NARUC representatives to protect State interests on (i) Steering Committee on Network Reliability, and (ii) Telecommunications Relay Services Advisory Council. Cf. NARUC's positions re: outside participation on the Board of Directors of the National Exchange Carrier Association, as well NARUC participation as a member of the North American Numbering Council.

In ¶ 11 of the *NPRM*, mimeo at 8, the FCC identifies its first responsibility as identifying "what core group of services should be supported by Federal universal support mechanisms."⁸

Past NARUC resolutions suggest that advanced telecommunications services should not be included in this definition. Universal service funding of such services is not appropriate unless and until a critical mass of demand develops. Inclusion of such services in the definition would yield anticompetitive results, since services typically included in US do not have all relevant costs allocated to them.⁹

Because of the evolutionary nature of what is considered "basic service", this is another area where continued cooperation is not only desirable, but required. The Act clearly contemplates that this Joint Board will "from time to time," sua sponte, "recommend...modifications in the definition of the

⁸ Section 254(a)(1) of the Communications Act, as amended, requires this Joint Board "to recommend changes to any of its regulations... including the definition of the services that are supported by Federal [US] support mechanisms..."
citation

⁹ See, NARUC's November 16, 1994 *Resolution Adopting 1995 NARUC Federal Telecommunications Legislative Policy Principles and White Paper*, Revised Naruc Telecommunications Policy Principles at 3. Cf. NARUC's July 27, 1994 *Resolution on Universal Service Principles*, recommending six principles for STATES to consider with respect to US issues, including the following: (1) Policy makers should periodically evaluate and adapt the definition of essential and universally available telecommunications services to assure that all subscribers will benefit from advanced applications; (2) In expanding the US concept, customer demand should be the principal determinant of appropriate technical standards or minimum service capabilities; and, finally, (3) Costs of current and future definitions of US must be carefully evaluated by regulators and support must be provided on a neutral, non-discriminatory basis.

services supported by the [US] support mechanisms." See, 47 U.S.C. § 254(c)(2) (1996).

For many years, US has been the cornerstone for regulation of telephone companies as public utilities. Public policy encouraged extension of telephone service to as many households and businesses as possible. During the past 25 years, the meaning of "basic" has changed and we can expect that it will continue to evolve. As technology enhances telecommunications capabilities, the package of universally available basic services must continue to meet expanding customer needs. At the same time, States must be permitted to continue developing and redefining US policies that best meet the needs of subscribers within their jurisdictions, as long as such policies do not make it impossible to achieve Federal statutory mandates.

B. The Statute Contemplates a Transition Period.

In ¶ 40, of the *NPRM*, mimeo at 40, the FCC seeks comment on "whether the principles governing our deliberations would permit, or even require, a transition period for carriers..to adjust to...the statutory framework erected by the [1996 Act]." Relevant NARUC resolutions expressly contemplate a transition period.¹⁰

¹⁰ See, e.g., the March 4, 1993 Resolution Requesting the Federal Communications Commission to Initiate an Inquiry into Access Issues suggestion to "develop[e] transitional support mechanism[s], the references in the November 16, 1994 Resolution Adopting 1995 NARUC Federal Telecommunications Legislative Policy Principles and White Paper, to a "framework for transitioning to...competition." Cf. the July 29, 1982 Resolution re: Communications Access Charges [Reported NARUC Bulletin No. 32 - 1982, pp. 13-14.] suggesting, at least with regard to SLCs, that "[w]hatever plan is established, a reasonable transition period must be incorporated to ameliorate customer impact."

NARUC is not alone in its expectations. Indeed, in the preceding High Cost Fund docket, in a section obviously anticipating passage of federal legislation, the FCC discusses in several places the obvious need for "transitional measures" to avoid disruptions to ratepayers.¹¹ Moreover, NARUC respectfully suggests that the Act's pointed reference to a "specific timetable for completion of such recommendations,"¹² clearly demonstrates Congresses intent that this Joint Board provide for a smooth transition from the current mechanisms.

C. Rather than increasing the Subscriber Line Charge, the Joint Board should examine alternative methods to recover the NTS costs remaining in CCL.

Currently, about 25 percent of the unseparated cost of LECs' subscriber loops is allocated to the interstate jurisdiction. These carriers recover a significant portion of that non-traffic sensitive interstate loop cost allocation directly from subscribers through flat monthly subscriber line charges (SLCs).

¹¹ See, the FCC "Notice of Inquiry", *In the Matter of Amendment of Part 36 of The Commission's Rules And Establishment of a Joint Board*, CC Docket No. 80-286, 9 FCC Rcd 7404 (1994), at 7411, note 17, where the FCC recognizes that "information compiled in...this [NOI] may be relevant to a broader examination of our [US] policy, such as those proposed in legislation now pending;" at 7430, noting that "State administration could ...reflect cost characteristics unique to each state."and that "[a]n advantage of this system is that a state commission is aware of the local service providers' network capabilities and the needs of the various communities within its jurisdiction. A state commission thus could adapt the general guidelines for high-cost assistance in order to serve the goals of universal service most effectively;" and, finally at 7431, where in ¶¶ 81-82, the FCC specifically addresses the need for a transition mechanisms to ameliorate "...the potentially disruptive effect..of implementing significant changes in..USF assistance."

¹² Id. § 254(a)(1).

The FCC's rules impose caps on the SLC rate at \$3.50 per month for residential and single-line business users and \$6.00 per month for multi-line business users.¹³ The LECs' remaining interstate allocated loop costs are currently recovered through a per-minute carrier common line (CCL) charge paid by IXC's, and ultimately by subscribers in the form of increased interstate long distance rates.

A brief review of the proceedings that lead to the SLC's adoption in the early 1980's demonstrates NARUC's historical opposition to such charges.¹⁴

¹³ 47 C.F.R. §§ 69.104(c)-(e), 69.203(a). If the interstate allocation of common line costs in a study area is lower than the SLC cap, the lower number is used.

¹⁴ **See**, the November 18, 1986 *Resolution Urging the Federal Communications Commission to Consider Other Regulatory Approaches than Increases in Subscriber Line Charges*, NARUC Bulletin No. 48-1986, p. 10, noting "[t]he State commissions are deeply concerned about the impact of the present...SLCs on Universal Service and generally oppose[] the proposed increases" and asked the FCC to delay any increase the SLCs until adequate study can be given to regulatory approaches other than increases, and until in-depth analysis can be made of the impact of the \$2 SLCs;" the February 26, 1987 *Resolution Opposing Increases in Subscriber Line Charges FCC*, NARUC Bulletin No. 10-1987, p. 3, where it contends "[t]he increases in SLCs proposed...would result in the local subscribers of many LECs paying for 100% of the NTS loop costs allocated to the interstate jurisdiction, which could allow [IXCs] in those study areas to use the local access lines to originate and/or terminate interstate...calls at no charge; [t]he fundamental principal in the jurisdictional separations process for allocation of the cost of commonly-used ...facilities is relative use;" and urges "...that there should be no change in the existing...(SLC)...for single-line customers until after one full year of experience followed by an evaluation of the impact of that charge..on subscribers;" that "there should be a minimum "floor" for interstate NTS cost allocation recovered from interstate carrier access charges;" and that "this "floor" should be based upon a measure of relative use of subscriber lines;" the July 22, 1987 *Resolution Supporting Affirmative Votes of the Joint Board and the FCC Before Second and Third Phases of*

Indeed, a January 23, 1984 "Response of the [NARUC] to Letter from Thirty-Two Senators To the Commission", filed in CC Docket 78-72, states, at page 2, "NARUC's position [is] that the FCC's flat rate end user access charges must be prohibited."

In part VI. of the *NPRM*, ¶¶ 112 - 115, mimeo at 51 - 52, the Joint Board is charged with examining whether the CCL charge should be reduced or eliminated and the SLC charge increased. In NARUC's most recent SLC pronouncement, we state:

- o [A]ctions to increase SLCs continue to disturb.. NARUC, since increased SLCs appear to be contrary to [US] goals.

\$1.50 SLC Increases Are Effective, NARUC Bulletin No. 31-1987, p. 15, which urged the FCC to (1) amend the decision allowing the second and third phases of the SLC increase to take effect automatically, and (2) require affirmative Joint Board and FCC votes, after an appropriate review proceeding, prior to any increase; the July 29, 1982 *Resolution re: Communications Access Charges*, NARUC Bulletin No. 32-1982, pp. 13-14, where in response to the original SLC proposal, NARUC asked the FCC to defer any action pending a Joint Board recommendation, and supported "in the short term" a non-SLC approach; the November 16, 1983 *Resolution Supporting Action by the United States Congress for Universal Telephone Service Legislation*, which suggests the FCC's "access charge decision, along with other FCC action may cause rates for basic telephone service and access to [the] network to increase substantially."; *Cf.* the July 22, 1987 *Resolution Urging the FCC to Allow Public Comment on the Federal-state Joint Board Proposal to Monitor the Effects of Changes in the Access Charge Plan*, NARUC Bulletin No. 31-1987, pp. 15-16; the March 1, 1989 *Resolution Opposing the Rates Filed by AT&T for Final SLC Pass-through*; the May 8, 1984 *ST. LOUIS RESOLUTION*, NARUC Bulletin No. 20-1984, p. 11; See, also, 90th NARUC Annual Convention Proceedings, p. 1195 (1978), 90th NARUC Annual Convention Proceedings, p. 1195 (1978), 91st NARUC Annual Convention Proceedings, p. 1205 (1979), 92nd NARUC Annual Convention Proceedings, p. 1117 (1980), 93rd NARUC Annual Convention Proceedings, p. 1129 (1981), 94th NARUC Annual Convention Proceedings, p. 1411 (1982), 95th NARUC Annual Convention Proceedings, p. 1412 (1983), 96th NARUC Annual Convention Proceedings, p. 1600 (1984), 97th NARUC Annual Convention Proceedings, p. 1180 (1985), 98th NARUC Annual Convention Proceedings, p. 1136 (1986), 99th NARUC Annual Convention Proceedings, p. 1142 (1987).

- o NARUC urges...an evaluation be made by the Joint Board... of all jurisdictional shifts in revenue requirement and that carriers be required to show the benefit of rate reductions made possible by the final SLC increase.
- o Further...there [should] be a minimum "floor" on interstate cost allocation recovered from interstate carrier access charges and that the floor should be based upon a measure of relative use of subscriber lines. SLCs must not be allowed to become an impediment to quality universal telephone service at affordable rates in the United States...."¹⁵

1. Increasing the SLC is Contrary to Congressional Intent.

NARUC's resolutions suggest that increasing the SLC is bad policy. Moreover, minimally, before a decision can be made to increase a non-optional, flat rate end-user charge, to recover a greater share of NTS costs, the Joint Board must determine what effect that increase in the level prices for telephone service will have on subscribership. The study the FCC relied upon in rendering its original decision in CC Docket 78-72 suggests an increase of the magnitude necessary to eliminate the common line charge, could drive a significant number of subscribers from the network.¹⁶

Indeed, the FCC concedes in ¶ 114 of the **NPRM** that "...recovery of the full interstate allocation of common line costs directly from end-users might cause the flat monthly rates paid by certain subscribers to exceed acceptable levels, and could have an adverse impact on telephone subscribership."

¹⁵ See, the July 27, 1989 Resolution Adopting the Committee on Communication's Policy Statement on Telecommunication Issues, and accompanying "Policy Statement".

¹⁶ See, "Third Report and Order", Appendix G, Table 3, showing an approximate 9% drop-off rate with the proposed \$6:00 end-user rate.

Moreover, it seems axiomatic, that, when Congress sought to secure the benefits of competition for the American people, while continuing to advance and protect universal service, they did not expect the FCC to immediately implement, what the average consumer will perceive as, a significant local rate increase.¹⁷

In addition, at least from a theoretical perspective, it seems inconsistent to be suggesting blocking of IXC-related charges, and related approaches - i.e., deloading the "minimum" charge for access to local service, and, in the same **NPRM** seeking to load up that same "minimum" charge for local access.

Nor is it clear that targeted subsidies, or some other universal service mechanism, could substantially ameliorate the impact of a substantial SLC increase. Although explicit US support mechanisms may help preserve service in very high cost areas, an increased end-user charge could permit significant increases in base entry level prices for service in some areas that have not been accounted for in existing or proposed models.

¹⁷ Additionally, a proposal to increase the SLC seems inconsistent with Congress' intent as expressed in new 47 U.S.C. § 254(k), which states: "A carrier may not use services that are not competitive to subsidize services that are subject to competition. The Commission with respect to interstate services, and the States with respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and guidelines, to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services."

2. The FCC Should Consider Alternative Regulatory Approaches to replace the SLC.

NARUC's November 18, 1986 Resolution Urging the [FCC] to Consider Other Regulatory Approaches than Increases in [SLCs], NARUC Bulletin No. 48-1986, p. 10, suggests, inter alia, "the FCC delay any decision to increase the SLCs until adequate study can be given to regulatory approaches other than increases in SLCs." If the Joint Board finds that it is not economically efficient to recover non-traffic sensitive NTS costs on a traffic sensitive basis via CCL, it still is not necessary to increase the SLC. From an economic perspective, what is important is the flat structure of the charge; not who pays it. Interexchange carriers should pay a portion of the NTS loop cost because they use the LECs loop to provide their services.

For example, instead of raising the SLC, the Joint Board could recommend the following:

- 1 - Identify all interstate NTS costs and reduce them to a per line charge.
- 2 - Assess the charge on the end-user's presubscribed IXC.
- 3 - If the end-user occasionally uses other carriers, divide the charge among all carriers using the common line on the basis of relative use by each carrier.
- 4 - Allow IXCs to recover the flat payment any way the market will allow, e.g., a minimum bill or tapered usage rates, as long as the IXC, not the LEC, directly bills the end-user.

An obvious advantage to this approach is greater consumer understanding. Consumers now tend to think that their only charges for interstate service are the per-minute charges billed to them by their interexchange carriers.

Moreover, in general accord with the professed preferences of Congress, this approach allows the marketplace to determine how NTS costs are ultimately recovered from end-users, rather than prescriptively requiring that they be recovered in all cases the same way.¹⁸

D. Mechanisms to support federal policies should be funded by interstate providers.

The FCC, in ¶¶ 121-126 of the **NPRM**, seeks comment on how contributions to the federal US mechanism should be assessed. It is important that, whatever mechanism is adopted, funds are adequate to "...ensure that all citizens are provided access to those basic telecommunications services that are available to the majority of citizens throughout the U.S." ¹⁹ NARUC also submits, that Congress intended, and the Act requires, that mechanisms to support federal policies should be funded by only by interstate providers.²⁰ Accordingly, consistent with §§ 152(b) and 254 of the Act, the Commission should scrupulously avoid any rules that have the effect of requiring carriers to contribute intrastate revenues to any interstate universal service mechanism.

¹⁸ Thus, for some IXC's, "Ramsey pricing" will dictate the imposition of flat end user charges. Some IXCs may choose to absorb that charge or part of it as part of their cost of doing business, or to obtain a competitive advantage.

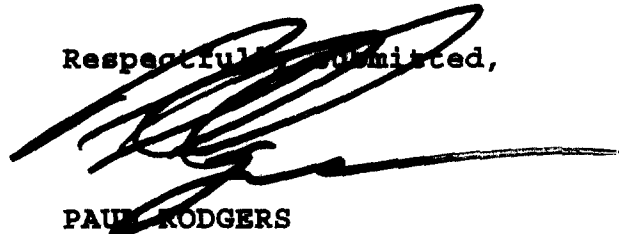
¹⁹ See, NARUC's February 23, 1996 Resolution Regarding NARUC Policy Principles.

²⁰ Compare, NARUC's July 27 1994 Resolution to Consider Taxation as a Means of Supporting Universal Service, suggesting, inter alia, taxation as a means of supporting US.

III. CONCLUSION

In response to communications reform, NARUC has focused upon principles to establish an appropriate Federal-State regulatory framework and appropriate US policies. In light of acknowledged State concerns, we respectfully request that the Joint Board carefully consider and incorporate NARUC's positions, as outlined infra, in any recommendations to the FCC.

Respectfully Submitted,



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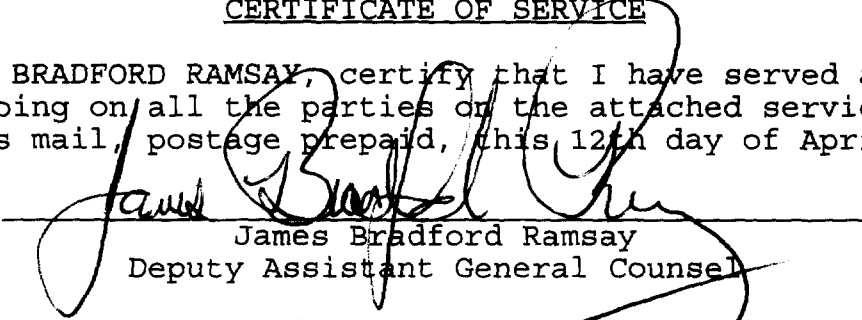
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April 12, 1996

CERTIFICATE OF SERVICE

I, JAMES BRADFORD RAMSAY, certify that I have served a copy of the foregoing on all the parties on the attached service list by 1st class mail, postage prepaid, this 12th day of April, 1996.


James Bradford Ramsay
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